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ABSTRACT

As part of the Assessing the New Federalism project, this paper explores the role of the state and federal government in narrowing state spending differences among noneducation children's programs. An analysis of the variation among states in need, capacity, and willingness to spend is followed by an analysis of two federal funding strategies--matching dollars and fully federally funded programs. These analyses help explain whether and how these programs help to equalize spending on children relative to a state's need and ability to finance services. Also discussed is a state's willingness to pay for services and how it influences total spending. An examination of some specific programs considers whether variations in spending occur within certain programs and studies the effects of the three indicators on program spending. Even with the high level of federal government spending, there are still significant spending differences among the states. This is due to the extremely high poverty levels of some states. An appendix discusses programs, data sources, and methodology. (Contains 14 endnotes.) (SLD)

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Federal and State Funding of Children's Programs

Toby Douglas
Kimura Flores
The Urban Institute

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Assessing the New Federalism
An Urban Institute Program to Assess Changing Social Policies

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Occasional Paper Number 5

Assessing the New Federalism

An Urban Institute Program to Assess Changing Social Policies

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This report is part of The Urban Institute's *Assessing the New Federalism* project, a multi-year effort to monitor and assess the devolution of social programs from the federal to the state and local levels. Project codirectors are Anna Kondratas and Alan Weil. The project analyzes changes in income support, social services, and health programs. In collaboration with Child Trends, Inc., the project studies child and family well-being.

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Assessing the New Federalism

Assessing the New Federalism is a multi-year Urban Institute project designed to analyze the devolution of responsibility for social programs from the federal government to the states, focusing primarily on health care, income security, job training, and social services. Researchers monitor program changes and fiscal developments. In collaboration with Child Trends, Inc., the project studies changes in family well-being. The project aims to provide timely, nonpartisan information to inform public debate and to help state and local decisionmakers carry out their new responsibilities more effectively.

Key components of the project include a household survey, studies of policies in thirteen states, and a database with information on all states and the District of Columbia, available at the Urban Institute's Web site. This paper is one in a series of occasional papers analyzing information from these and other sources.

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Federal and State Funding of Children's Programs

States vary widely in the proportion of their population in need of governmental assistance and in their ability and willingness to finance services from their own revenues. These differences lead to wide variations in state spending on children.[1] The federal government takes these differences into account when operating federal matching and fully federally funded programs, ranging from cash assistance to health care financing. Some of these programs are designed to help reduce differences in state needs and abilities; others provide assistance directly to families with children regardless of where they reside.

The federal government structures many of these programs with the intention of targeting a higher level of federal dollars to states with more children in need of services and/or less ability to raise revenue and a lower level of federal dollars to states with fewer children in need and/or a high revenue base. The result of this system is that the former group of states receives a greater proportion of federal funds relative to their state spending levels than the latter. In theory, these different levels of federal to state expenditures should lead to more equal state spending levels per poor child.

Federal programs influence total government spending patterns in several ways. In calculating what each state receives, some federal programs factor in the wealth (i.e., revenue) of a state, others focus entirely on a state's residents' needs, and some factor in both. In addition, some of these financing mechanisms require a state to share in a program's costs, making federal funding contingent on a state's spending levels. These financing sys-

tems lead to the following questions: How well has the federal government factored in a state's wealth and its residents' needs? Do federal programs tend to narrow state differences in spending on children? Finally, how does a state's willingness to pay for services affect the level of expenditures across the states?

In this paper we address these questions and, in particular, the role of the state and federal governments in narrowing state spending differences among noneducation children's programs.[2] We found that there are significant differences across states in spending from state funds. We also learned that the federal government's funding mechanisms do substantially reduce the spending differences among states. However, major differences continued to exist. This expenditure variation was most apparent in spending from matching programs, because of states' differing willingness to spend monies on children's programs and because the funding structure does not directly account for the extremely high needs of some states. Finally, we found that the program in which differences in spending among the states were greatest was the old Aid to Families with Dependent Children (AFDC) program.

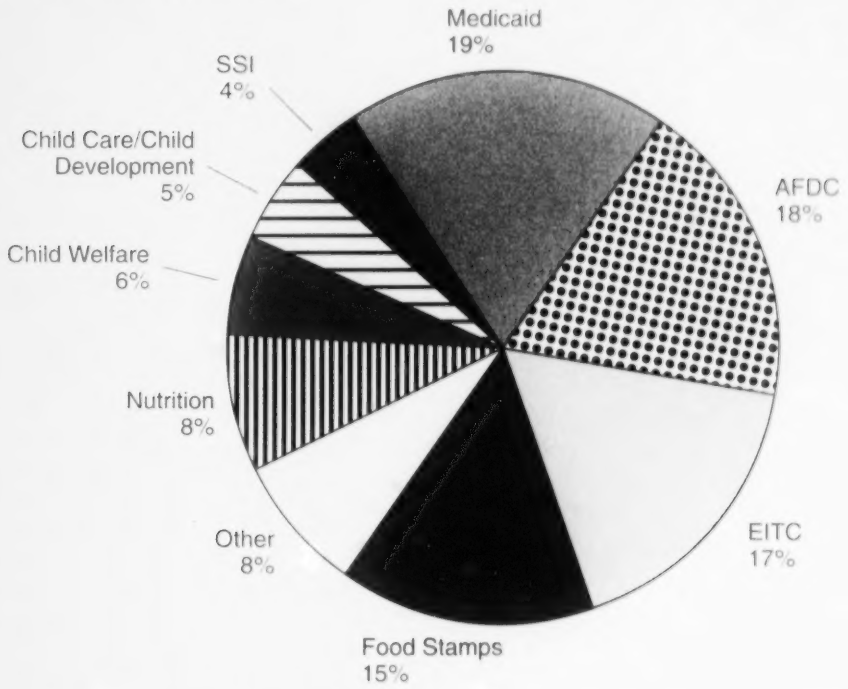
In this paper, we first analyze the variation among the states in need, capacity, and willingness to spend. Second, we describe and analyze the two federal funding structures—matching dollars and fully federally funded programs—to understand whether and how these programs help to equalize children's spending relative to a state's need and ability to finance services. We then discuss a third factor, a state's willingness to pay for services, and how it influences total spending. Finally, we focus on specific programs to analyze whether variations in spending occur within certain programs and to study the effects of the three indicators on program spending.

Although states spend considerable amounts on education programs, this analysis focuses solely on noneducation children's programs. In federal fiscal year (FFY) 1995, the programs covered in this analysis accounted for $126 billion in federal and state spending. We have included over twenty programs in our analysis. Medicaid, the old AFDC, the Earned Income Tax Credit (EITC), and Food Stamps were the four largest programs, accounting for $89.6 billion and 69 percent of the total. Figure 1 illustrates the distribution of children's spending by the major programs in 1995. A list of the programs and a description of how the data were collected and computed are given in the Appendix.

Variation in State Need, Capacity, and Willingness

Before analyzing spending differences, we first address how states vary in their economic and demographic composition. We look at state differences in need, ability to raise revenue, and willingness to spend.

Figure 1 *Distribution of State and Federal Spending on Children's Programs, FFY 1995—Total $126 Billion*



Source: Urban Institute calculations based on data from U.S. Department of Health and Human Services (DHHS), Health Care Financing Administration (HCFA), U.S. Department of Agriculture (USDA), Internal Revenue Service (IRS), Office of Management and Budget (OMB), and Social Security Administration (SSA).

Child Need

States vary in their proportion of children in need of services. Table 1 lists child poverty rates for the 50 states. In the median state, 18.6 percent of the children lived in families with incomes below the poverty line. In the 10 states with the highest rates of childhood poverty, an average of 28.5 percent of the children were poor, while in the 10 states with the lowest childhood poverty rates, only 12.7 percent were poor. If state spending targeted to poor children were to be the same for all poor children, those states with a larger fraction of their population living in poverty would have to spend more than those states with a small fraction of poor children. For example, on average, a high poverty rate state would have to spend 2.24 (28.5/12.7) times as much as a low poverty rate state of the same size in order to spend the same amount per poor child.

As part of our analysis, we focus on how much each state spends per child in households with incomes below the poverty line. This lets us standardize state spending relative to need when we examine expenditure differences across states. We used the number of children living in poverty, rather than the number of children in a state, as a measure of need because it is more reflec-

Table 1 *50-State Child Poverty, Per Capita Personal Income, Personal Income Per Poor Child, and Fiscal Effort—1995 (states listed by lowest to highest personal income per poor child)*

	Child Poverty[a]		Per Capita Personal Income			Personal Income Per Poor Child			Fiscal Effort Per $1,000 of Personal Income[c]		
State	%	Rank[b]	$	Index[b]	Rank	$	Index[b]	Rank	$	Index[b]	Rank
MISSISSIPPI	34.4	49	16,683	77	50	173,391	37	50	113.52	99	29
LOUISIANA	35.9	50	18,981	88	40	186,474	40	49	104.17	91	44
NEW MEXICO	29.8	48	18,206	84	47	209,959	45	48	131.70	115	5
WEST VIRGINIA	29.1	47	17,687	82	49	260,064	56	47	114.02	99	28
KENTUCKY	27.9	46	18,849	87	42	269,173	58	46	114.98	100	25
SOUTH CAROLINA	26.1	45	18,998	88	39	283,863	61	45	107.74	94	40
OKLAHOMA	24.6	39	18,580	86	44	284,135	61	44	109.27	95	37
ARKANSAS	24.4	37	18,101	84	48	286,540	61	43	106.21	92	43
TEXAS	25.8	43	21,206	98	30	291,168	62	42	107.96	94	39
ARIZONA	24.9	41	20,489	95	35	308,906	66	41	124.42	108	12
ALABAMA	23.8	36	19,181	88	38	319,726	68	40	94.32	82	50
IDAHO	19.3	29	18,906	87	41	335,112	72	39	115.13	100	24
CALIFORNIA	25.6	42	24,073	111	11	342,955	73	38	110.65	96	34
TENNESSEE	24.5	38	21,038	97	32	348,791	75	37	96.95	84	48
SOUTH DAKOTA	19.4	30	19,576	90	37	357,776	77	36	101.98	89	45
MONTANA	18.8	26	18,445	85	45	364,107	78	35	114.30	99	27
FLORIDA	25.9	44	23,061	106	20	383,336	82	34	107.66	94	41
MICHIGAN	22.0	35	23,915	110	16	413,489	88	33	124.48	108	11
OHIO	21.0	34	22,514	104	21	420,510	90	32	112.42	98	30
NORTH CAROLINA	20.1	32	21,103	97	31	427,864	92	31	114.95	99	26
UTAH	12.4	5	18,232	84	46	428,657	92	30	122.05	106	14
MISSOURI	19.8	31	21,819	101	24	429,061	92	29	96.16	84	49
GEORGIA	19.1	28	21,741	100	25	435,019	93	28	112.35	98	31
NEW YORK	24.6	40	27,678	128	4	452,322	97	27	155.36	135	1
ILLINOIS	20.8	33	25,225	116	8	464,146	99	26	110.32	96	35
KANSAS	17.3	22	21,841	101	23	470,469	101	25	117.31	102	20

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OREGON	18.2	24	21,611	100	26	475,199	102	24	118.60	103	18
WYOMING	15.0	15	20,684	95	34	487,566	104	23	128.99	112	7
NORTH DAKOTA	14.2	11	18,625	86	43	493,151	106	22	119.13	104	17
INDIANA	16.3	19	21,433	99	28	516,386	111	21	111.35	97	33
IOWA	15.9	18	20,921	97	33	517,089	111	20	126.00	110	9
MAINE	15.8	17	20,105	93	36	517,254	111	19	125.26	109	10
PENNSYLVANIA	18.8	27	23,558	109	19	522,776	112	18	110.29	96	36
WASHINGTON	17.3	21	23,774	110	18	534,302	114	17	121.24	105	15
RHODE ISLAND	17.3	23	23,844	110	17	580,368	124	16	117.46	102	19
WISCONSIN	14.4	12	22,261	103	22	589,894	126	15	137.34	119	3
MINNESOTA	14.8	14	23,971	111	14	604,276	129	14	131.46	114	6
NEBRASKA	12.9	6	21,447	99	27	619,943	133	13	117.05	102	21
NEVADA	14.7	13	24,390	113	10	670,936	144	12	108.57	94	38
HAWAII	14.1	9	24,590	113	9	684,159	146	11	137.12	119	4
MASSACHUSETTS	17.2	20	28,021	129	3	697,386	149	10	116.39	101	22
VERMONT	12.1	3	21,231	98	29	697,594	149	9	128.63	112	8
MARYLAND	15.0	16	26,333	121	5	703,898	151	8	112.00	97	32
CONNECTICUT	18.4	25	31,776	147	1	719,285	154	7	122.99	107	13
VIRGINIA	13.7	8	23,974	111	13	724,402	155	6	101.28	88	46
COLORADO	12.4	4	23,961	111	15	754,981	162	5	107.17	93	42
ALASKA	10.0	1	24,002	111	12	772,862	165	4	141.76	123	2
DELAWARE	13.2	7	26,273	121	6	811,333	174	3	115.70	101	23
NEW HAMPSHIRE	11.8	2	25,587	118	7	854,353	183	2	99.79	87	47
NEW JERSEY	14.1	10	29,848	138	2	866,864	186	1	120.70	105	16
50-State Median	**18.6**		**21,676**	**100**		**467,308**	**100**		**114.96**	**100**	
Top Ten	**12.7**		**26,972**	**124**		**760,296**	**163**		**134.36**	**117**	
Bottom Ten	**28.5**		**18,231**	**84**		**255,367**	**55**		**101.57**	**88**	

Source: Urban Institute calculations based on data from U.S. Department of Commerce, Current Population Survey, and U.S. Census Bureau, Government Finance Division.

a. Children in families with incomes less than the Federal Poverty Level as a percent of total children in the state.

b. Based on 50-state median of 100.

c. Total tax revenue is FY 1994.

Note: Child poverty and the number of children in poverty are 1994 estimates based on three-year averages.

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tive of the population served by the programs covered here. While some programs, such as Medicaid and the EITC, also serve low-income children above the poverty level, most programs assist children living below the poverty line.

Fiscal Capacity

Fiscal capacity also varies considerably across states. A state's fiscal capacity represents its potential to raise revenue for all public functions, including programs benefiting children. We use per capita personal income as an indicator of fiscal capacity because it is the most widely used and most easily understood measure of a state's ability to fund services.

We realize that states try to export their tax burden, and a few succeed. For example, if a state has a large oil or tourist industry it can raise large amounts of revenue without taxing its own citizens. In these cases, per capita income actually falls short of a state's true fiscal capacity.[3] However, for the most part, overall taxes end up being paid by a state's own residents.

As shown at the bottom of table 1, in 1995 the 10 most affluent states had an average per capita income level of $26,972 compared to $18,231 for the 10 poorest states. With these varying fiscal capacities, states would have to tax their residents at very different rates to provide a similar level of spending. The 10 poorest states would have to tap their resources at a 48 percent higher rate than the 10 most affluent states to provide the same level of per capita expenditures.

Relationship between Need and Capacity

Not surprisingly, table 1 also shows that many of the states with higher rates of child poverty tended to have low fiscal capacities. This inverse relationship made it even more challenging for a high-need state—one with above-average poverty rates—to access the revenue needed to finance expenditures for its poor children.

We studied this inverse relationship by analyzing the combined effects of both child poverty and fiscal capacity. We measured a state's level of personal income (i.e., revenue-raising ability) per poor child. This method enabled us to determine whether a state's fiscal capacity or child poverty exacerbated or balanced out the effects of the other indicator. More importantly, it helped us determine which states have the highest and lowest ability to spend on children's programs. In table 1, the 50 states are listed in order of ability to spend from lowest to highest. For example, table 1 illustrates that New York, although it had a very high poverty rate, placed close to the median in personal income per poor child because of its high fiscal capacity (28 percent above the median). In contrast, Utah, with a very low child poverty rate, ranked thirtieth in personal income per poor child because it had one of the lowest fiscal capacities. Table 1 also shows that the "high-ability states," those with the 10 highest levels of personal income relative to children in poverty, had on average $760,296 of available personal income per poor child. This amount was almost three times higher than the 10 "low-ability states," those with the 10 lowest levels of

personal income relative to children in poverty, which had an average of $255,367 of personal income per poor child.

Fiscal Effort

A third factor influencing state expenditure levels is a state's willingness to spend. We use fiscal effort as an indicator of a state's willingness to invest in public services. Fiscal effort is defined as revenue from state and local taxes divided by state personal income. Unlike need and fiscal capacity, fiscal effort is a matter for the state to decide.

Fiscal effort measures how intensively a state has tapped its available resources (i.e., total personal income). By determining total tax revenue relative to available personal income, we can account for differences in fiscal capacity across states. States and localities raise revenue for children's and other government services from three major sources: personal income tax, sales tax, and property tax.[4]

Table 1 shows the wide variations in fiscal effort. The fifty-state median effort was $115 per $1,000 of personal income. This level varied from a high of $155 per $1,000 of personal income in New York to a low of $94 per $1,000 of personal income in Alabama.

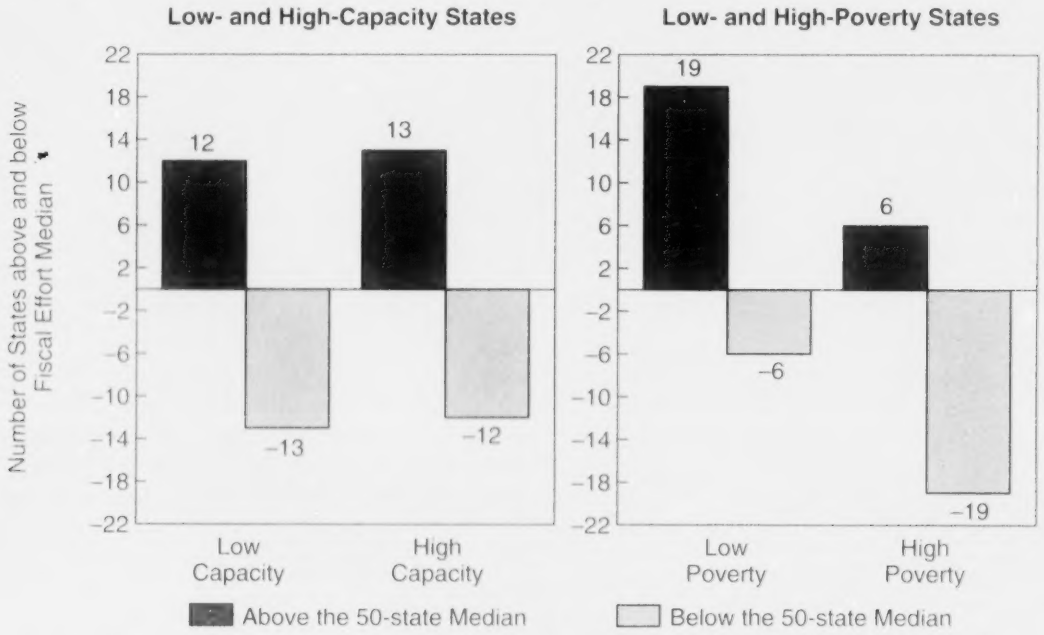
Relationship between Fiscal Effort, Fiscal Capacity, and Need

We found that a state's fiscal effort was not closely related to the average incomes of its residents. Figure 2 shows that of the 25 states that had a fiscal capacity above the median, 13 also exerted a fiscal effort above the median while 12 exerted an effort below the median. Of the 25 low fiscal capacity states (i.e., below the median), 12 exerted high efforts, and 13 exerted efforts below the median. This large variation and weak relationship between effort and capacity illustrate that how much revenue a state raises (i.e., how much it taxes its residents) is not solely dependent on a state's ability to raise resources (per capita personal income), but also on its willingness to finance government services.

We also found that a state's fiscal effort had an inverse relationship to its child poverty rate. States with high poverty rates tended to exert a low effort, while states with low poverty rates tended to exert a high effort. As figure 2 shows, of the 25 states with child poverty levels above the median, only six exerted fiscal efforts that were also above the median. In contrast, 19 out of the 25 states with poverty rates below the median exerted high levels of fiscal efforts (i.e., above the median).

Another indicator of the large variation in willingness among the states was the similarity in overall fiscal effort by the high- and low-ability states. Both groups placed close to the median in tax revenue per $1,000 of personal income. The high-ability states—those with high levels of personal income per

Figure 2 *Fiscal Effort of Low and High Fiscal Capacity and Child Poverty States, 1995*



Source: Urban Institute calculations based on data from DHHS, HCFA, USDA, IRS, OMB, and SSA.
Note: Total tax revenue is FY 1994.

poor child—raised an average of $116 per $1,000 of personal income compared to $113 per $1,000 for low-ability states. This suggests that there must be other variables, independent of a state's poverty rate and resident's average income, that determine a state's willingness to spend.

Federal Funding Mechanisms

The federal government attempts to address the state variations in need, capacity, and willingness to spend by assisting in the funding of children's programs. It provides aid to states' child populations through two major types of federally financed programs: matching programs and fully funded programs. These programs use different financing structures to attempt both to target funding to poor, high-need states and to narrow state differences in the amount of spending per poor child. The programs are grouped in the Appendix by financing structure.

Matching Programs

Matching programs require states to spend some of their own monies in order to receive federal funds for the specified programs. We define state matching spending as all state expenditures required to draw down federal money

for the 12 largest federal matching programs. In FFY 1995, total matching expenditures were $66.6 billion, with $37 billion in federal funds and $29 billion in state spending.[5] There are two types of financing structures: open-ended and closed-ended matching programs.

Open-ended matching programs, such as Medicaid, Foster Care, and the old AFDC program, enable states to obtain an unlimited amount of federal money as long as they match it with state dollars. This group of programs accounted for $58.5 billion of total matching expenditures. AFDC, Medicaid, and Foster Care together accounted for about 90 percent of all matching spending. The open-ended nature of these programs is due to the entitlement status which enables all eligible children to receive assistance.[6]

The state match for most open-ended programs is based on the Federal Medical Assistance Payment (FMAP), which is inversely related to a state's per capita income.[7] For example, Mississippi, with the lowest per capita income, had a 21.4/78.6 percent state/federal matching rate. In contrast, Connecticut, with the highest per capita income, had a 50/50 matching rate (no state can have a higher share than 50 percent). For every dollar spent on FMAP-related expenditures, Mississippi would have spent 21.4 cents and Connecticut would have spent 50 cents. Because of the use of this FMAP system, poor states pay less per federal dollar than affluent states, and additional assistance is available when more people qualify.

States control total spending on open-ended matching programs by determining the level of benefits provided in the various programs. This state discretion means that a wealthy state could receive more federal money per capita than a poor state if it chose to set benefit levels much higher than the poor state.

Closed-ended matching programs work under the same principle as open-ended programs, requiring states to share in total costs. However, the matching rates for programs such as Child Welfare Title IV-B Parts 1 and 2 and the Maternal and Child Health (MCH) Block Grant are usually the same for all states. Also, total federal outlays are capped with poor, high-need states receiving a larger proportion than affluent, low-need states. For example, Child Welfare IV-B Part 1 funds are distributed to states on the basis of their population under 21 years of age and their per capita income. MCH funds are allocated to states based on the percentage of the nation's low-income children residing in the state. Since federal funds for these closed-ended programs are limited and targeted, states do not have the same ability to influence total spending as in open-ended matching programs.

Because of the different matching rates, states receive very different levels of total open- and closed-ended federal matching dollars relative to state dollars. Since these financing structures are primarily based on per capita income, we analyzed the 10 states with the highest fiscal capacity and the 10 states with the lowest. In FFY 1995, the 10 poorest states spent an average of $106.5 million and received $246.9 million in federal aid. In contrast, the 10 most affluent

states spent an average of $984.8 million and received $1.024 billion in federal aid. Hence, for every dollar spent, the poor states received $2.32 in federal aid while the rich states received only $1.04.

Programs Funded Entirely by the Federal Government

Another set of programs which serve a very important role in providing assistance to low-income children are those that are financed completely by the federal government. These "fully federally funded" programs provided an additional $59.4 billion for services to children in 1995, accounting for 47 percent of total state and federal spending on programs directed to low-income children.

The fully federally funded programs examined in this paper target money to children in need. This structure helps reduce the financial burden in those states that have a high concentration of child poverty. These programs can be separated into two groups: federal block grants and federally financed programs, and federally funded grants to individuals.

Federal block grants and federally financed programs include programs such as Head Start, School Lunch, and the Child Care Development Block Grant (CCDBG). Outlays for these programs are established at the beginning of the fiscal year, meaning a state's allocation is capped. In addition to poverty levels, outlays are also sometimes based on the level of federal assistance when the block grant was established. For example, the Head Start allocation formula was based on three factors: the state's allocation in 1981, the number of children in poverty under age five, and the number of AFDC families with children under 18.[8]

Federally funded grants to individuals, such as the SSI, Food Stamps, and EITC programs, are different from block grants in that the federal government sets all of the policies and does not require states to use any of their own dollars for services.[9] Also, these programs, unlike block grants and outlays, are not capped, so federal spending rises automatically when more children and families qualify.

Spending on fully federally funded programs is tied closely to state need. The 10 states with the highest child poverty levels received an average of $15.76 per $1,000 of personal income in federal aid. This amount was more than twice that received by the states with the lowest poverty levels, only $7.59 per $1,000 of personal income.

Does Federal Funding Narrow State Spending Differences?

These various federal fund mechanisms have the potential to direct proportionately more federal dollars to those states with high need and low fiscal capacity, thus narrowing state spending differences. We compared the spending

levels of the 10 states with the highest levels of personal income per poor child to the 10 states with the lowest levels of personal income per poor child, referred to as the 10 "high- and low-ability" states. We first looked at the matching program expenditure structure to understand its effects on differences in spending levels between these two groups of states. Then we analyzed spending differences when the other federal financing structures are included along with total matching spending.

State Matching Spending

Table 2 shows that in FFY 1995, the median amount the 50 states spent on federal matching children's programs was $3.39 per $1,000 of personal income. The table also shows that the median 50-state spending for these programs was $1,717 per poor child. Spending levels of state funds relative to both fiscal capacity and child need varied considerably across the 50 states. For example, New York spent $4,649 per poor child, more than 11 times as much as Mississippi's spending level of $411 per poor child.

Table 3 shows that the top 10 high-ability states spent an average of $3,304 per poor child, or 92 percent above the 50-state median. In contrast, the 10 lowest ability states' average spending level of $767 places them 55 percent below the median. Table 3 also shows that in state-only dollars the 10 high-ability states spent 46 percent more per $1,000 of personal income than the low-ability states ($4.38 to $3.01). This difference means that even when accounting for the different levels of personal income (i.e. capacity), the high-ability, wealthy states still spent more than the low-ability, poor states.[10]

Total Matching Spending

With the federal matching dollars added in, the median matching spending per poor child rose to $4,162, over twice the average state funds spending level. In some states, this inclusion increases the total by even greater factors: in Mississippi and New Mexico, state plus federal dollars is almost four times greater than the state's share of total expenditures per poor child.

In addition, adding federal matching dollars to the state funds decreased expenditure differences between the ten high- and the ten low-ability states. Relative to need, the expenditure gap between the two groups narrowed to 184 percent from the 331 percent gap using state-only money. However, in actual dollars the spending difference between the two groups was still large, with the 10 high-ability states spending an average of $7,041 per poor child compared to $2,477 by the 10 low-ability states.

These continued disparities in spending per poor child are due in part to the federal matching funding structure. While it provides a higher match rate to poorer states, this matching mechanism still requires states to spend monies in order to receive federal funds, and many low-ability states are either unable or unwilling to spend significant state monies on these programs.

Table 2 *Total Spending on Children's Programs in 1995*

	State Funds				State and Federal Matching Funds[b]				Total State and Federal Funds[c]			
	Per $1,000 Personal Income	Index[a]	Per Poor Child	Index[a]	Per $1,000 Personal Income	Index[a]	Per Poor Child	Index[a]	Per $1,000 Personal Income	Index[a]	Per Poor Child	Index[a]
ALABAMA	1.85	55	593	35	5.85	62	1,870	45	22.45	117	7,177	84
ALASKA	8.18	242	6,322	368	16.95	181	13,101	315	25.05	131	19,361	226
ARIZONA	3.87	114	1,195	70	11.23	120	3,470	83	23.69	124	7,319	85
ARKANSAS	2.39	71	685	40	8.00	85	2,291	55	24.35	127	6,977	81
CALIFORNIA	7.65	226	2,622	153	15.61	166	5,352	129	25.63	134	8,789	103
COLORADO	2.97	88	2,243	131	6.48	69	4,895	118	13.56	71	10,239	119
CONNECTICUT	4.62	136	3,323	194	9.52	101	6,845	164	13.51	70	9,715	113
DELAWARE	4.28	126	3,471	202	8.97	96	7,280	175	16.51	86	13,398	156
FLORIDA	3.99	118	1,530	89	9.13	97	3,500	84	19.50	102	7,474	87
GEORGIA	3.37	99	1,464	85	8.84	94	3,844	92	21.20	111	9,223	108
HAWAII	6.79	201	4,648	271	14.03	150	9,599	231	22.63	118	15,482	181
IDAHO	1.95	58	653	38	5.95	63	1,995	48	16.08	84	5,387	63
ILLINOIS	4.84	143	2,249	131	9.93	106	4,608	111	18.37	96	8,526	99
INDIANA	2.83	84	1,461	85	7.35	78	3,798	91	15.73	82	8,122	95
IOWA	3.33	98	1,721	100	8.73	93	4,515	108	16.17	84	8,363	98
KANSAS	2.93	87	1,378	80	7.29	78	3,432	82	15.61	81	7,345	86
KENTUCKY	3.11	92	838	49	9.39	100	2,529	61	23.67	123	6,371	74
LOUISIANA	3.23	95	602	35	10.83	115	2,020	49	31.57	165	5,887	69
MAINE	4.07	120	2,107	123	10.92	116	5,650	136	20.31	106	10,507	123
MARYLAND	4.53	134	3,189	186	9.37	100	6,597	158	16.26	85	11,443	134
MASSACHUSETTS	5.67	168	3,956	230	11.61	124	8,097	195	16.63	87	11,597	135
MICHIGAN	5.03	149	2,081	121	11.68	124	4,828	116	19.78	103	8,179	95
MINNESOTA	4.69	138	2,831	165	10.48	112	6,336	152	16.77	87	10,134	118
MISSISSIPPI	2.37	70	411	24	9.44	101	1,637	39	36.42	190	6,315	74

MISSOURI	3.09	91	1,328	77	7.73	82	3,315	80	18.02	94	7,730	90
MONTANA	2.82	83	1,026	60	8.89	95	3,235	78	19.95	104	7,262	85
NEBRASKA	3.64	104	2,192	128	8.83	94	5,472	131	16.93	88	10,495	122
NEVADA	2.72	80	1,823	106	5.93	63	3,979	96	12.84	67	8,616	101
NEW HAMPSHIRE	3.13	93	2,678	156	6.61	70	5,646	136	11.32	59	9,668	113
NEW JERSEY	3.05	90	2,646	154	6.34	68	5,495	132	11.90	62	10,316	120
NEW MEXICO	3.82	113	803	47	13.49	144	2,833	68	31.21	163	6,553	76
NEW YORK	10.28	304	4,649	271	20.82	222	9,418	226	29.06	151	13,146	153
NORTH CAROLINA	3.62	107	1,551	90	9.88	105	4,225	102	20.87	109	8,932	104
NORTH DAKOTA	2.99	88	1,475	86	8.31	89	4,099	98	17.96	94	8,856	103
OHIO	4.07	120	1,713	100	10.23	109	4,302	103	19.26	100	8,098	94
OKLAHOMA	2.92	86	831	48	9.20	98	2,615	63	23.12	121	6,569	77
OREGON	3.80	112	1,808	105	9.73	104	4,625	111	18.69	97	8,883	104
PENNSYLVANIA	5.18	153	2,708	158	11.36	121	5,938	143	18.94	99	9,899	115
RHODE ISLAND	5.82	172	3,379	197	13.11	140	7,608	183	21.02	110	12,200	142
SOUTH CAROLINA	2.30	68	654	38	7.37	79	2,093	50	22.10	115	6,273	73
SOUTH DAKOTA	2.10	62	751	44	6.12	65	2,191	53	16.82	88	6,017	70
TENNESSEE	3.40	100	1,185	69	9.76	104	3,403	82	22.30	116	7,777	91
TEXAS	2.68	79	780	45	7.21	77	2,100	50	21.80	114	6,348	74
UTAH	2.72	80	1,165	68	9.10	97	3,901	94	18.63	97	7,984	93
VERMONT	4.98	147	3,473	202	12.61	134	8,798	211	21.57	112	15,046	176
VIRGINIA	2.41	71	1,743	102	5.05	54	3,656	88	12.76	67	9,246	108
WASHINGTON	5.08	150	2,716	158	10.94	117	5,844	140	18.40	96	9,829	115
WEST VIRGINIA	3.36	99	873	51	12.22	130	3,177	76	27.93	146	7,265	85
WISCONSIN	4.17	123	2,461	143	10.33	110	6,095	146	17.34	90	10,232	119
WYOMING	2.84	84	1,385	81	7.68	82	3,746	90	17.16	89	8,365	98
50-State Median	**$3.39**	**100**	**1,717**	**100**	**$9.38**	**100**	**4,162**	**100**	**$19.19**	**100**	**8,571**	**100**

Source: Urban Institute calculations based on data from DHHS, HCFA, USDA, IRS, OMB, and SSA.
a. Based on 50-state median of 100.
b. Includes state spending plus federal matching dollar spending.
c. Includes total matching spending plus fully federally funded program spending.
Note: Child poverty and the number of children in poverty are 1994 estimates based on three-year averages.

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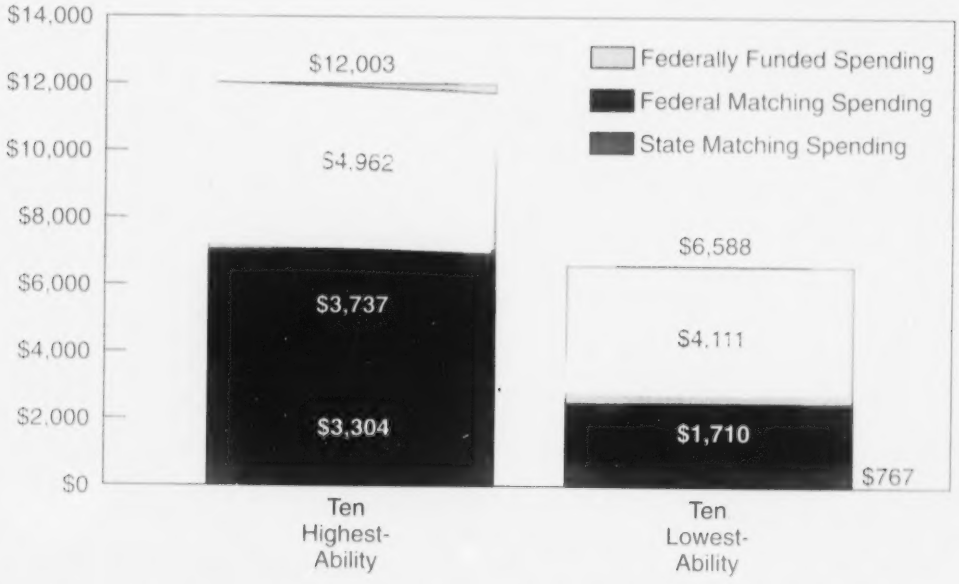
Table 3 *Children's Spending for the Ten Highest- and Lowest-Ability States in 1995*

	Per Poor Child								
	State Funds	Index[a]	State and Federal Matching Funds[b]	Index[a]	Fully Federally Funded Dollars	Index[a]	Total State and Federal Funds[c]	Index[a]	Total Change (%)
Ten Highest	$3,304	192	$7,041	169	$4,962	119	$12,003	140	263.3
Ten Lowest	767	45	2,477	60	$4,111	99	6,588	77	758.8
% Difference	*(330.8)*		*(184.3)*		*(20.7)*		*(82.2)*		
50-State Median	**$1,717**	**100**	**$4,162**	**100**	**$4,158**	**100**	**$8,571**	**100**	**399.2**
	Per $1,000 of Personal Income								
	State Funds	Index[a]	State and Federal Matching Funds[b]	Index[a]	Fully Federally Funded Dollars	Index[a]	Total State and Federal Funds[c]	Index[a]	Total Change (%)
Ten Highest	$4.38	129	$9.35	100	$6.56	73	$15.91	83	263.0
Ten Lowest	3.01	89	9.84	105	16.75	186	26.59	139	784.6
% Difference	*(45.8)*		*(-5.0)*		*(-60.9)*		*(-40.2)*		
50-State Median	**$3.39**	**100**	**$9.38**	**100**	**$8.99**	**100**	**$19.19**	**100**	**466.1**

Source: Urban Institute calculations based on data from DHHS, HCFA, USDA, IRS, OMB, and SSA.
a. Based on 50-state median of 100.
b. Includes state spending plus federal matching dollar spending.
c. Includes total matching spending plus fully federally funded program spending.
Note: Child poverty and the number of children in poverty are 1994 estimates based on three-year averages.

Figure 3 shows the average children's spending level by funding source in the 10 high- and 10 low-ability states. The figure helps illustrate how the matching structure affects the expenditure levels of these two groups of states. The federal matching funding provided the low-ability states with 2.23 times as much as their state-only spending, while the high-ability states received almost the same amount of federal matching dollars as state dollars (see previous section). However, since the low-ability states spent so little on the matching programs, this high level of federal matching dollars relative to state-only money only worked out to an average of $1,710 of additional money per poor child ($2,477 – $767). In contrast, the additional federal dollars provided the high-ability states with an extra $3,737 per poor child ($7,041 – $3,304). This difference illustrates that, since these programs require states to first spend monies in order to receive the federal matching funds, states' decisions influence overall spending levels. Therefore, although the federal money reduced the large state-only spending differences in percentage terms, the spending differences that remain are still significant. This result raises two questions: Is the matching structure factoring in the child poverty needs of poor states at a high enough level, and are the states with high poverty rates willing to spend only a limited amount of funds on these programs?

Figure 3 *State and Federal Spending per Poor Child by Funding Stream in High- and Low-Ability States, 1995*



Source: Urban Institute calculations based on data from DHHS, HCFA, USDA, IRS, OMB, and SSA.
Note: Child poverty and the number of children in poverty are 1994 estimates based on three-year averages.

Total Spending

Spending under fully federally funded programs flows into low-capacity, high-need states, however, without regard to state spending decisions. This reduces the variation among states in spending per poor child. When fully federally funded programs are included, the high-ability states spent only 82 percent more than the low-ability states, down from 184 percent. This inclusion also raises the 50-state median to $8,571 per poor child. As figure 3 shows, total spending in the 10 states with the lowest ability was $6,588 per poor child compared to $12,003 in the 10 states with the highest ability.

Figure 3 also shows how the low-ability states rely on the fully federally funded programs to a much larger degree than the high-ability states. Of the funds spent on children's programs, the low-ability states received 62 percent from fully federally funded programs, whereas the high-ability states received only 41 percent of their funds from these sources.

Supplementing and Targeting

Federal dollars did not completely eliminate spending differences for poor children in a state. They did, however, supplement state spending per poor child in poor states with high needs at a higher level than in affluent, low-need

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states. In addition, the fully federally funded programs increased spending among the states with the highest levels of need even more dramatically. For example, although federal funds increased spending per poor child in the 10 lowest-ability states by 761 percent, Mississippi's expenditures per poor child increased by over 1,400 percent and Alabama's expenditures increased by over 1,100 percent over their state-only funding levels. In contrast, the federal funding structures increased spending per poor child in the 10 states with the highest ability by only 263 percent.

The additional federal dollars also significantly increased the fiscal capacity of the low-ability states. For example, table 3 shows that the fully federally funded program dollars provide the low-ability states with an additional $16.75 per $1,000 of personal income, whereas the high-ability states only receive an average of $6.56 in extra expenditures per $1,000 of personal income. In addition to expanding the low-ability states' capacity, the federal government provides the two groups of states with an almost equal number of fully federally funded dollars per poor child ($4,962 to $4,111).[11]

Willingness to Spend

When we studied the degree to which federal programs narrowed state differences in spending on poor children, we saw that spending differences did decrease but that variations in expenditures continued to exist. It may be that the federal government has not accounted for the considerable need of certain states at a rate high enough to make up for the state spending differences. In addition, expenditure differences may be due to the federal funding system's reliance on a state's willingness to pay. We addressed a state's willingness to pay for services by analyzing how fiscal effort affects a state's level of total matching spending per $1,000 of personal income.[12] This expenditure measurement enabled us to analyze how much a state spent on children's services relative to its capacity and regardless of its need.

Fiscal Effort Relative to Matching Spending

At the beginning of this paper, we illustrated that very little relationship exists between fiscal effort, fiscal capacity, and a state's child poverty level. Consequently, fiscal effort varied considerably across high-ability and low-ability states. Differences in willingness to spend within the two groups of states help to explain variations in the ability of federal matching dollars to target states with high child poverty rates and low per capita income levels. For example, Texas and South Carolina, both low-ability states, exerted such low fiscal efforts that they received some of the lowest levels of total matching spending per $1,000 of personal income. In contrast, Massachusetts and Vermont, both high-ability states, exerted above-median fiscal efforts, enabling them to receive a higher level of total matching spending compared to the low-ability states.

These variations in matching expenditures relative to fiscal effort within the high- and low-ability states illustrate how spending is influenced not only by fiscal capacity and child poverty levels but also by a state's willingness to spend. The federal government, by requiring states to pay a portion of total costs, has built fiscal effort into its financing structures. This structure rewards states that are willing to pay. For example, several of the high-ability states had above-average total matching spending levels due in part to their high fiscal efforts. In addition, New Mexico and Arizona, both low-ability states, had very high levels of total matching spending (44 and 20 percent above the median) per $1,000 of personal income partly because they exerted high efforts (15 and 8 percent above the median). Interestingly, these two states still fall far below the median (32 and 17 percent respectively) in total matching spending per poor child. This result again illustrates that the federal funding system, even though it has targeted dollars to high child poverty states, might not account for need at a high enough level.

Categorical Spending

We analyzed how the interaction between the federal funding systems and states' efforts affects the level of spending in various programs. We studied three welfare programs for children: AFDC, Food Stamps, and Medicaid. Tables 4 and 5 show state spending variations for the three programs. The tables show that median total state and federal AFDC spending per poor child was $1,264. This amount constituted close to a third of total state and federal matching expenditures. Combined AFDC and Food Stamps spending per poor child was almost double this amount. Medicaid expenditures were also an important portion of spending on children, comprising approximately 37 percent of total state and 38 percent of total matching spending.[11]

AFDC and Food Stamps

AFDC expenditure amounts varied more across states than any other matching program. As mentioned earlier, total state and federal matching program expenditures per poor child were 185 percent greater in the high-ability states than in the low-ability states. However, as table 6 shows, in the AFDC program, the 10 states with the highest ability spent an average of 286 percent more in total federal and state dollars per poor child than the lowest-ability states.

It is important to note that state policy discretion played a role in these large differences. AFDC spending depends in part on the level at which each state sets its benefits. A state with a high benefit level and a high matching rate (e.g., 50 percent) could receive a higher proportion of federal dollars than a state with a low benefit level and low matching rate. This discretion demonstrates the important role a state's willingness to spend played in equalizing spending differences. Food Stamps, in contrast, are entirely federally funded and provide assistance to poor families, regardless of their state of residence.

Table 4 *Total AFDC and Food Stamps Spending on Children's Programs, 1995*

	Total AFDC				Total AFDC and Food Stamps			
	Per $1,000 Personal Income	Index[a]	Per Poor Child	Index[a]	Per $1,000 Personal Income	Index[a]	Per Poor Child	Index[a]
ALABAMA	1.12	42	357	28	5.60	97	1,789	73
ALASKA	7.41	280	5,726	453	10.40	180	8,035	326
ARIZONA	3.23	122	999	79	7.35	127	2,271	92
ARKANSAS	1.17	44	335	27	5.06	88	1,450	59
CALIFORNIA	8.49	321	2,913	231	11.35	197	3,894	158
COLORADO	1.69	64	1,274	101	3.69	64	2,789	113
CONNECTICUT	3.82	144	2,745	217	5.17	90	3,718	151
DELAWARE	2.11	80	1,710	135	4.17	72	3,383	137
FLORIDA	2.65	100	1,015	80	5.80	101	2,225	90
GEORGIA	2.94	111	1,277	101	6.59	114	2,869	116
HAWAII	6.07	229	4,156	329	10.44	181	7,142	290
IDAHO	1.50	57	502	40	3.83	66	1,284	52
ILLINOIS	3.25	123	1,507	119	6.08	105	2,822	114
INDIANA	1.64	62	849	67	4.18	72	2,158	88
IOWA	2.56	97	1,323	105	4.52	78	2,335	95
KANSAS	1.90	72	894	71	4.04	70	1,899	77
KENTUCKY	2.64	100	711	56	7.36	128	1,981	80
LOUISIANA	1.89	71	352	28	8.27	143	1,542	63
MAINE	3.77	143	1,951	154	6.87	119	3,552	144
MARYLAND	3.02	114	2,129	168	5.31	92	3,739	152
MASSACHUSETTS	4.04	153	2,820	223	5.59	97	3,896	158
MICHIGAN	4.72	178	1,951	154	7.47	129	3,088	125
MINNESOTA	3.45	130	2,086	165	5.20	90	3,140	127
MISSISSIPPI	1.71	65	296	23	8.93	155	1,548	63
MISSOURI	2.34	88	1,004	79	5.77	100	2,474	100
MONTANA	3.44	130	1,253	99	6.38	111	2,325	94
NEBRASKA	2.14	81	1,329	105	3.96	69	2,455	100
NEVADA	1.70	64	1,141	90	3.61	63	2,421	98
NEW HAMPSHIRE	2.10	79	1,791	142	3.37	58	2,876	117
NEW JERSEY	2.58	98	2,238	177	4.28	74	3,709	150
NEW MEXICO	5.66	214	1,188	94	11.15	193	2,341	95
NEW YORK	7.03	266	3,178	252	9.80	170	4,432	180
NORTH CAROLINA	2.41	91	1,033	82	5.09	88	2,178	88
NORTH DAKOTA	2.26	85	1,116	88	4.37	76	2,157	87
OHIO	3.47	131	1,458	115	6.63	115	2,788	113
OKLAHOMA	2.82	107	800	63	7.12	123	2,023	82
OREGON	3.31	125	1,573	124	6.21	108	2,951	120
PENNSYLVANIA	3.37	127	1,759	139	5.96	103	3,114	126
RHODE ISLAND	5.76	218	3,343	265	8.73	151	5,068	206
SOUTH CAROLINA	1.59	60	452	36	5.22	90	1,483	60
SOUTH DAKOTA	1.63	62	582	46	4.02	70	1,437	58
TENNESSEE	1.82	69	636	50	5.77	100	2,013	82
TEXAS	1.66	63	483	38	6.52	113	1,897	77
UTAH	2.06	78	882	70	4.21	73	1,807	73
VERMONT	5.06	191	3,530	279	7.91	137	5,519	224
VIRGINIA	1.50	57	1,088	86	3.83	66	2,771	112
WASHINGTON	4.83	183	2,581	204	7.42	129	3,964	161
WEST VIRGINIA	3.38	128	878	69	9.44	164	2,455	100
WISCONSIN	3.79	143	2,238	177	5.48	95	3,230	131
WYOMING	2.23	84	1,088	86	4.68	81	2,281	93
50-State Median	**$2.65**	**100**	**1,264**	**100**	**$5.77**	**100**	**2,465**	**100**

Source: Urban Institute calculations based on data from DHHS and Food Stamp Quality Control data and tabulations by Food and Consumer Service, USDA.

a. Based on 50-state median of 100.

Note: Child poverty and the number of children in poverty are 1994 estimates based on three-year averages.

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Table 5 *Medicaid Spending on Children*

State	Total			
	Per $1,000 Personal Income	Index*	Per Poor Child	Index*
ALABAMA	2.74	69	875	49
ALASKA	6.17	155	4,767	267
ARIZONA	5.40	135	1,667	94
ARKANSAS	4.31	108	1,234	69
CALIFORNIA	3.68	92	1,262	71
COLORADO	2.45	61	1,850	104
CONNECTICUT	2.42	61	1,739	98
DELAWARE	3.44	86	2,788	156
FLORIDA	4.99	125	1,913	107
GEORGIA	4.11	103	1,789	100
HAWAII	5.48	137	3,751	210
IDAHO	2.10	53	704	39
ILLINOIS	3.92	98	1,820	102
INDIANA	3.28	82	1,696	95
IOWA	3.99	100	2,062	116
KANSAS	2.45	61	1,152	65
KENTUCKY	4.02	101	1,081	61
LOUISIANA	6.26	157	1,168	66
MAINE	4.43	111	2,289	128
MARYLAND	4.11	103	2,890	162
MASSACHUSETTS	4.93	124	3,441	193
MICHIGAN	4.31	108	1,780	100
MINNESOTA	4.59	115	2,772	156
MISSISSIPPI	5.47	137	948	53
MISSOURI	2.96	74	1,268	71
MONTANA	2.83	71	1,031	58
NEBRASKA	3.52	88	2,180	122
NEVADA	2.66	67	1,785	100
NEW HAMPSHIRE	2.53	63	2,164	121
NEW JERSEY	2.11	53	1,833	103
NEW MEXICO	6.03	151	1,266	71
NEW YORK	6.79	170	3,070	172
NORTH CAROLINA	4.53	114	1,939	109
NORTH DAKOTA	2.77	69	1,365	77
OHIO	3.87	97	1,626	91
OKLAHOMA	4.04	101	1,149	64
OREGON	3.84	96	1,825	102
PENNSYLVANIA	4.03	101	2,107	118
RHODE ISLAND	4.23	106	2,455	138
SOUTH CAROLINA	3.99	100	1,134	64
SOUTH DAKOTA	2.84	71	1,017	57
TENNESSEE	5.77	145	2,013	113
TEXAS	4.00	100	1,164	65
UTAH	4.12	103	1,767	99
VERMONT	3.96	99	2,762	155
VIRGINIA	2.29	57	1,655	93
WASHINGTON	3.64	91	1,945	109
WEST VIRGINIA	6.44	161	1,675	94
WISCONSIN	3.98	100	2,348	132
WYOMING	2.96	74	1,445	81
50-State Median	**$3.99**	**100**	**1,783**	**100**

Source: Urban Institute calculations based on data from HCFA 64 and 1082.
* Based on 50-state median of 100.
Note: Child poverty and the number of children in poverty are 1994 estimates based on three-year averages.

Table 6 *Program Spending Trends Per Poor Child in the Ten Highest and Lowest Ability States—FFY 1995*

Program	10 High	Index[a]	10 Low	Index[a]	Difference %
AFDC	2,505	198	649	51	285.8
Food Stamps	1,538	122	1,250	99	23.1
AFDC & Food Stamps	4,043	164	1,899	77	112.9
Medicaid	2,589	145	1,248	70	107.4
EITC	1,694	114	1,488	100	13.9
All Other	3,677	140	1,952	75	88.3
Total	$12,003	140	$6,588	77	82.2

Source: Urban Institute calculations based on data from DHHS, HCFA, USDA, IRS, and OMB.
a. Based on 50-state median of 100.
Note: Child poverty and the number of children in poverty are 1994 estimates based on three-year averages.

so the Food Stamps program provides additional federal dollars to residents of low-ability states and states that do not exert a high effort. In a sense, Food Stamps, as a federally funded program, serves as a substitute for a state's investment in children.

When AFDC and Food Stamp spending is combined, the spending gap between the high- and low-ability states declines to 113 percent. This decrease is also due to the unique interaction between AFDC and Food Stamps. While Food Stamps are not directly affected by state policy decisions, a child's or family's benefit level for Food Stamps is directly affected by AFDC benefit decisions. A family with a lower AFDC benefit level would have received a larger Food Stamp allocation. While AFDC state policy decisions affect Food Stamp spending, the opposite relationship could also hold true. Federally established Food Stamp eligibility and benefits levels could actually cause the large variations in AFDC state spending. Some states might lower their AFDC grants because they realize Food Stamps will serve as substitute income for any AFDC benefit reduction.

The interaction between AFDC and Food Stamps illustrates the important role federal funding plays in decreasing spending differences. While AFDC state spending varied considerably, Food Stamp expenditure levels were similar across the high- and low-ability states ($1,538 and $1,250 per poor child respectively). However, Food Stamps spending constituted three times the AFDC expenditure level in the low-ability states and less than 60 percent of AFDC spending in the high-ability states. Consequently, since the low-ability states received a large amount of Food Stamp dollars relative to their AFDC spending level, their total AFDC and Food Stamp spending increased more than that of the high-ability states. This difference caused the overall AFDC and Food Stamps spending gap between the 10 high- and low-ability states to decrease.

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Medicaid

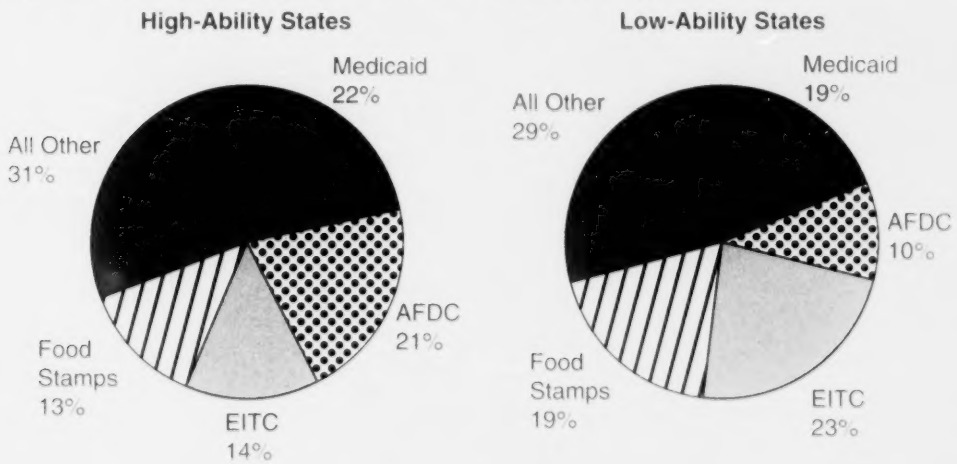
Medicaid expenditures on children also did not follow the total matching spending trends noted earlier. In contrast to AFDC, state discretion caused smaller state differences. High-ability states spent an average of 107 percent more per poor child than the low-ability states. This variation was a lot smaller than the total state and federal matching spending differences between these two groups of states (185 percent) and the total AFDC spending differences (289 percent).

Despite significant variation in spending in the Medicaid program, federal policies have helped decrease the variations among the states. In particular, the federal government has expanded child eligibility, forcing low spending states to increase their costs. In addition, the federal government has required states to set reimbursement rates at a level that meets the expenses of an "economically and efficiently operated hospital." This policy has caused state hospital reimbursement rates to vary less among the states than they would have otherwise.

Reliance on Different Programs

Figure 4 shows total spending in the high- and low-ability states by type of program. The figure shows that the two groups of states relied on different programs for their funding. Among the high-ability states, the two largest programs were the Medicaid and AFDC programs, which together accounted for 43 percent of the funding. The Food Stamps and EITC programs provided the high-ability states' residents with only 27 percent of the total funding. The low-ability states' residents, on the other hand, received most of their assistance through

Figure 4 *Spending in High- and Low-Ability States by Program, FFY 1995*



Source: Urban Institute calculations based on data from DHHS, HCFA, USDA, IRS, OMB, and SSA.

the Medicaid, EITC, and Food Stamps programs. These three programs accounted for 61 percent of their funding. The most striking difference between the two groups of states is that the low-ability states received a much greater proportion of their funding from the Food Stamps and EITC programs (42 percent) than did the high-ability states. These two programs are 100 percent federally funded and do not require a state match. In addition, the EITC is administered through the federal tax system, and states have no role in this program. Lastly, as discussed above, the program which varies the most between the two groups of states is the AFDC program.

Conclusions and Implications

The federal government plays an important role in funding programs for low-income children. It has targeted dollars to states with the least ability to pay and the highest need for services, and has reduced the discrepancy in spending on children between the highest- and lowest-ability states. When federal funding is included, high-ability states spend only 1.82 times as much as low-ability states, rather than 4.3 times as much. Without these various funding mechanisms, low-capacity, high-need states would have to exert a much larger fiscal effort to provide similar services as provided in high-capacity, low-need states. Or, children would likely receive very different levels of assistance depending on where they lived.

Besides addressing need and capacity of states, the federal government has expected states to assist in financing children's programs. In fact, the federal government appears to be balancing need and capacity with state participation, since approximately one-half of the funding it distributes for children's programs is in matching programs and one-half is in fully federally funded programs.

Even with the high level of federal government funding, there are still significant spending differences among the states. This result is due to the extremely high child poverty levels of some states, which means that even with high levels of federal assistance relative to state spending, these states were still unable to fund services equally. Differences are also caused by the structure of federal matching programs in which federal funds are allocated based on a state's willingness to spend. By using this funding mechanism to distribute funds, the federal government was less effective in targeting money to high child poverty states, since some states did not spend enough to pull down sufficient federal funds. Lastly, some of these state spending variations may reflect differences in the cost of living among the states and, to a lesser extent, the cost of providing services.

If the only goal were to further narrow state spending on children's programs, the federal government could mandate spending on children as is done in the Medicaid program, spend more on fully federally funded programs, or

decrease the required match for low-ability states. These last two remedies, however, would go against the federal government's other goal of achieving state participation in the funding of children's programs. In addition, it may be that reducing the match does not increase total spending, as it may lead some states to spend even less on these programs.

It is not clear what determines the amount states are willing to spend on children's programs. Contrary to what one might expect, a state's fiscal effort is not dependent on the wealth of its residents and is actually slightly inversely related to its child poverty rate. Thus, there must be other factors, independent of a state's need and capacity, that determine a state's willingness to spend on children's programs. This difference in willingness to spend was most evident in the old AFDC program, where expenditure amounts varied across the states more than in any other matching program. The fact that states showed the most variation in spending on this program is probably due to its nature and structure. In the old AFDC program, states were given flexibility to determine eligibility levels and benefit amounts and therefore were more able to determine the overall cost of the program. The AFDC program also provided individuals grants for housing costs, and thus the variation in grant levels was probably reflective of the varying costs of housing across the country. In addition, since AFDC was the main welfare program, its funding was probably more reflective of the states' differing political attitudes toward welfare programs and thus varied more than state funding of other programs.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 converted AFDC into a block grant known as Temporary Assistance for Needy Families (TANF). This new block grant, unlike other fully federally funded programs, does not target states with high need. Instead, it sets allocations to states' historic AFDC spending levels. Since the old AFDC program actually exacerbated the differences in spending between rich and poor states, TANF freezes into place the wide expenditure differences among states. In addition, because states have greater flexibility in spending TANF monies and the new law requires states to maintain spending at only 75 percent or 80 percent of its prior levels, it is possible we will see even greater discrepancies in state spending.

This switch to a block grant, therefore, does not address the fact that the AFDC was the program least able to target high-need states. In the future, however, this change could lead to federal funding policy revisions that level out spending differences. Since the federal government can now determine overall TANF spending, Congress could decide in future years to restructure the funding allocations to target states with high child needs. Although currently this outcome appears unlikely, Congress has enacted similar financing changes in the past to other block grant programs.[11] If TANF funding became more targeted, overall spending variations would be likely to decrease.

Appendix: Programs, Data Sources, and Methodology

Matching Programs

All sources, unless otherwise noted, are from the Office of Legislative Affairs and Budget (LAB) in the U.S. Department of Health and Human Services (DHHS) for FFY 1995.

Open-Ended

Adoption Assistance: Provides payments to parents who adopt a special needs child who is AFDC- or SSI-eligible. Also provides one-time assistance to parents adopting non-AFDC- or SSI-eligible children. Federal reimbursement rate is FMAP for payments, 50 percent for administration, and 75 percent for training.

AFDC: Provides monthly cash assistance payments to low-income families. Eligibility based on income and assets. Spending includes assistance payments and administration and excludes child support retained revenue. Federal reimbursement rate is FMAP for payments, 50 percent for administration.

AFDC Emergency Assistance: Provide emergency payments to AFDC-eligible families who have depleted their resources. Federal reimbursement rate is FMAP.

AFDC/JOBS Child Care: Available to AFDC recipients who need child care in order to accept employment, remain employed, or participate in employment

activities. Spending does not include administration. Federal reimbursement rate is FMAP.

Child Support: Provides states with funds to enforce child support orders determined in court. The program requires the state to provide services to both AFDC and non-AFDC families. Federal reimbursement is 66 percent for most administrative costs and 90 percent for information systems.

Foster Care: Provides maintenance payments to AFDC-eligible children who are removed from their homes and placed in foster care homes or other facilities. Spending includes benefits, administration, and training. Federal reimbursement rate is FMAP for payments, 50 percent for administration, and 75 percent for training.

Medicaid: Provides health care to low-income persons. Only spending for persons under the age of 19 is included in our analysis. Data is based on Urban Institute calculations using data from the Health Care Financing Administration 64 and 1082 forms. Federal reimbursement rate is FMAP.

Transitional Child Care: Available to former AFDC recipients who need child care in order to continue working. Spending does not include administration. Federal reimbursement rate is FMAP.

Closed-Ended

AFDC JOBS: The Family Support Act of 1988 required states to have an employment, education, and training program to help prevent long-term welfare dependency. Federal reimbursement is set at various rates, including the FMAP, for different portions of a state's allocation. Spending is based on FSA-331 and ACF-332, Administration for Children and Families, DHHS.

At-Risk Child Care: Provides funding to low-income families who are not enrolled in AFDC, need child care in order to work, and would be at risk of becoming eligible for AFDC without child care. Reimbursement is based on the FMAP, capped at state allotment.

Child Welfare (Title IV-B Part 1): Provides funding to support states' efforts to keep families together, reunify families, and find children adoptive homes. There are no income guidelines. Federal reimbursement is 75 percent for all services, capped at state allotment.

Family Preservation (Title IV-B Part 2): Provides family preservation services to children and families at risk or in crisis. Federal reimbursement is 75 percent for all services, capped at state allotment.

Maternal and Child Health (MCH): Provides states with funds to develop and administer programs for the care of mothers and children. Reimbursement

is $4 for every $3 spent by the state, capped at state allotment. Federal data comes from the Office of Operations and Management, DHHS.

Fully Federally Funded Programs

All sources, unless otherwise noted, are obligations from the Office of Management and Budget, Budget Information of the United States, FFY 1997.

Federal Block Grants and Fully Federally Financed Programs

Child Nutrition Programs: This includes expenditures for the School Lunch, School Breakfast, and Child and Adult Care Food programs.

Child Care Development Block Grant (CCDBG): Provides states with funds to improve quality and availability of child care. Twenty-five percent of funds must be used for early childhood and before- and after-school child care. Data is FFY 1995 allocations reported by LAB, DHHS.

Head Start: Provides comprehensive child development services to primarily low-income children ages 3 to 5.

JTPA Titles IIB and IIC: Provides employment and training funds for economically disadvantaged youth ages 16 to 21. IIB is for summer job training and IIC is for year-round training.

WIC: Provides supplemental food, health care referrals, and nutrition education at no cost to low-income pregnant and postpartum women, infants, and young children up to 5 years of age.

Federally Funded Grants to Individuals

EITC: This program enables parents with modest earnings, including AFDC parents who leave welfare because of work, to receive a cash supplement. Data are for tax year 1994 from the Internal Revenue Service and collected by the Center on Budget and Policy Priorities, and include payments to all families, including individuals.

SSI for Children: Provides benefit payments to needy blind and disabled children. Spending is an estimate for the federal fiscal year, based on spending in June and December of each year. Includes federal spending and also state supplements for states in which the state supplement is federally administered. Data is from the Office of Research, Evaluation, and Statistics, Social Security Administration (SSA).

Food Stamps: Provides benefit payments for purchase of food items. Includes only payments to households with children. Based on Urban Institute tabulations using Food Stamp Quality Control data and tabulations by Food and Consumer Service, U.S. Department of Agriculture.

Other Sources

Per Capita Personal Income and Total Personal Income: U.S. Department of Commerce, Bureau of Economic Analysis, 1995 calendar year estimates revised as of October 1996.

Child Poverty Rates: Current Population Survey (CPS), three-year average (March 1994–March 1996 where 1994 is the center year) edited using the Urban Institute's TRIM2 microsimulation model.

Number of Children in Poverty: U.S. Census Bureau, Office of Statistics, ST-96-10 Estimates of the Population of the U.S. for Selected Age Groups. Total number of children 17 and under in a state was multiplied by its percentage of children in poverty (see Child Poverty Rates for explanation of percentages).

Total Tax Revenue (Fiscal Effort): U.S. Census Bureau, Government Division, Federal, State, and Local Government Finances. Revenue raised by state and local governments from the public, excluding charges, liquor store revenue, insurance trust revenue, utility revenue and money received from issuance of debt, liquidation of investments, and agency and private trust transactions. Data are from FY 1994, the latest year available for total state and local revenue. Total revenue is divided by total state personal income for calendar year 1993.

Methodology

Decision Rules

This paper includes spending on noneducation children's programs. We developed three main rules for defining programs that would be included in the analysis: (1) We included spending on programs that were explicitly designed to help or "treat" children. Examples of these programs include child care, Head Start, and foster care. (2) We included spending on adults in programs where they received monetary assistance or services only because of the presence of a child. Examples of these programs include WIC, AFDC, and EITC. Although the EITC is provided to low-income individuals as well as families, the income limits are such that few individuals qualify. In addition, we included Food Stamp expenditures for families with children under this rule since it is used as an augmentation or substitution for the AFDC program. (3) We included spending on children's portion of expenditures in programs that

benefited both children and adults. These programs include Medicaid spending and SSI.

We also excluded programs that were designed for adults but indirectly benefit children such as JTPA IIA. We generally included administrative expenditures for a program if the majority of such spending was for service provision. For example, much of the spending on AFDC administration is for eligibility determination workers, and therefore administration was included in our AFDC numbers.

Unfortunately, we did not include three important federal programs under these decision rules: the Title XX Social Services Block Grant (SSBG), Mental Health Block Grant (MHBG), and housing subsidies. For SSBG, states have the discretion to use funds for both children and adult populations. Currently, no accurate data exist on state spending by population on SSBG. We excluded housing subsidies and MHBG for similar reasons. Most programs do not collect data on expenditures for child or family populations.

Data Collection Process

We compiled expenditure information on these children's programs from various federal departments, including the Department of Health and Human Services and the Office of Management and Budget. State expenditures for matching programs were computed based on a state's matching rate or the various matching rates within a given program. We performed this computation because matching program reporting systems, in most cases, included federal expenditure totals, but we did not ask states to submit information on a state's matching expenditures (AFDC did require state data).

This state expenditure total provides a very good estimate but is still a lower-bound indicator of what states spent on children's programs. It does not include state expenditures for state-initiated programs or for expansion of services to children not eligible for federal programs. For example, states tend to invest state-only money to expand services in child care and child welfare. In addition, states pay for almost all the costs of juvenile justice programs. A future *Assessing the New Federalism* report, focusing on 13 states, will analyze total state spending on children's programs by collecting data directly from the state budget offices.

For purposes of this report we counted obligations to states for fully federally funded programs as actual state expenditures, even though states usually had up to two years to use the funds. For example, the federal government reported state expenditure outlays for JTPA IIB and IIC but did not know how much money the state spent in a given year.

In the case of the JOBS program, this difference between obligations and actual expenditures was readily apparent. DHHS had two expenditure reporting systems for JOBS, one that presented information on federal obligations to

states by each matching rate and another that provided data on combined state and federal expenditures per month. In many instances, large discrepancies existed between these two sources because several states had drawn down money in a given fiscal year but had spent it in another. For example, a state could have drawn down $50 million in FFY 1995 and $30 million in FFY 1996. Yet it could actually have spent only $25 million in SFY 1995 and $35 million in SFY 1996 and have held the remaining $10 million for the subsequent state fiscal year. We therefore developed a methodology that cross-referenced the two reporting systems and resolved these differences. We first multiplied the average monthly combined federal and state expenditure total by 12 to arrive at a 12-month total. Then we used the other DHHS reporting system on obligations to disaggregate the 12-month total into state and federal funds.

Notes

1. This paper expands on previous reports by Steven Gold, Elizabeth Davis, Deborah Ellwood, et al., and Carol Cohen and Martin Orland, which also analyzed state spending on programs for children and families. These papers focused on how spending patterns changed between 1980 and 1992.

2. Equal spending does not mean equal services or even equal standards of living. However, because of the lack of comprehensive data on the cost of providing services and the cost of living across the states, we consider only expenditures when comparing state spending on noneducation children's programs.

3. Economists have developed measures which account for states' abilities to export tax burdens. Total Taxable Resources (TTR) and Representative Tax System (RTS) are two of these indicators. See Steven Gold et al., *How Funding of Programs For Children Varies Among the 50 States*, Center for the Study of the States (Albany, New York: The Nelson A. Rockefeller Institute of Government, State University of New York, January 1996), pp. 8–10, 16.

4. We exclude charges from our analysis because children's services are primarily funded with general purpose revenue.

5. We did not account for state investment in state-initiated programs or on state expansions to cover children not eligible for federal programs. Therefore, the state totals should be considered very good estimates but still a lower-bound indicator of what states spent on children's programs. A future *Assessing the New Federalism* report focusing on 13 states will analyze total state spending on children's programs.

6. Our analysis was based on FFY 1995 data. With the passage of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), the AFDC program was converted into a block grant beginning in FFY 1997. Under the PRWORA, states receive a block grant based on historic AFDC expenditure levels, and the act requires states to maintain their state spending at 75 or 80 percent of prior levels.

7. The state matching requirement for the Child Support program is not based on the FMAP. Its federal reimbursement is 66 percent for most administrative costs and 90 percent for information systems. In addition, administrative spending for several matching programs is set at 50 percent for all states.

8. This was the formula before the passage of the PRWORA and the elimination of the AFDC program. It is unclear how the Head Start monies will be distributed in the future.

9. States may choose to provide a supplement to the federal SSI payment, and currently all but eight states provide them. States are required to maintain either their previous year's total supplementation expenditures or their SSP payment levels as of March 1983, or risk losing their Medicaid reimbursement. States also have the option of administering their supplementation payments themselves or contracting with the Social Security Administration. States also pay a portion of Food Stamp administrative expenses.

10. In this paper, we have only accounted for state matching spending, which means we cannot accurately conclude that low-ability states are "less willing" to spend than high-ability states. These high-ability states had to exert a higher spending effort to achieve the same results since they have a lower matching rate (e.g., 50/50 state-federal). In contrast, low ability states received a high matching rate (e.g., 30/70 state-federal), which meant they could exert a lower effort to receive the same level of total state and federal matching dollars as the high-ability states. Hence, we should expect variations in state matching spending per $1,000 across the high- and low-ability states.

11. High-ability states still received more per poor child than low-ability states due to the various funding formulas which take into account several measures including historical allocation levels and number of children in the state, as well as the number of children in need.

12. We compare fiscal effort to total matching spending, rather than state or federal alone, because the combined total accounts for the different levels of required investment and reimbursed federal dollars.

13. We only included Medicaid expenditures on children, which accounted for approximately 16.8 percent of total federal and state Medicaid spending in FFY 1995.

14. For example, in 1992, Congress continued to change and expand the funding for the Substance Abuse and Mental Health Block Grants. In addition to increasing state expenditures, it also restructured the funding allocations which had been based on historical spending levels to target additional dollars to states with a higher need for services.

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